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Executive Summary

This Report is compiled to comply with Section 205 of Title 37 of the FSM Code which requires that “By May 1 each year, the Board shall transmit to the President and Speaker a report containing a tabulated statement and synopsis of the reports which have been filed with the Board showing the conditions of every person licensed under this Act, the general condition of the insurance business in the FSM, and other matters covering insurance and including the activities of the Insurance Board, for the last fiscal year. This report shall be made available to the general public.”

The legal mandates of the Board pursuant to Section 204 of 37 FSMC are:

- (1) to regulate insurance business;
- (2) to undertake the licensing and supervision of insurers, insurance agents, insurance solicitor, and insurance broker;
- (3) to protect the interests of policy owners; and
- (4) to promote the soundness, stability, and development of the insurance system in the FSM.

Essentially, the underlying objective of the Board is to ensure the insurance system in the country is protected for the benefit of the insurance public, yet functioning consistently with legal, regulatory and prudential principles for investors, policyholders, and in the case of annuity the depositors. The approaches and mechanisms to achieve the objective are unique and specialize. Insurance regulatory and supervision functions are new to the country, thus the Board. The Board is mindful that if it goes too far to protect consumer, setting very high standards and allow insurance companies to take minimum risks, there is a potential such approach could create a problem of moral hazard that could threaten institutions and markets to function efficiently and effectively. Conversely, if the Board takes a more “relaxed” attitude in regulating the industry, hoping that the players would self-regulate themselves, then a chance to trigger a systematic failure, even if a small player fails as a result of mismanagement, lapses in control or poor business decision. Finding the right “mix” or balance between the two is at the core of what the Board is charged or mandated to do.

The FSM Insurance Act came into effect in June 2006. Full implementation of the Act was somewhat difficult at the beginning because insurance is a unique and specialize area requiring familiarity with unique and unfamiliar concepts, principles, standards, approaches, etc. Not many people in the FSM have been trained in insurance regulatory and supervisory functions. However, much of the struggles encountered in the early days have been learnt from and staff is beginning to have a grasp on how insurance functions in practice and the regulatory and supervisory requirements involved. In other words, we are learning and making progress, although such progress is slow due to a number of challenges. Our efforts to secure a technical assistance from various sources, including the National Association of Insurance Commissions of the United States America (NAIC), IMF, PFTAC, World Bank, ADB, AusAid, among others have not been successful due to lack of insurance specialist availability. However, the Board is still trying and exploring other options, such as prospect donors and funding from FSM Government, reliance on independent advisors and consultants, self-learning, among others.

An insurance expert is necessary to be retained (onboard) to assist with the review of the legal and regulatory framework, draft the necessary amendments, draft the regular insurance regulations which includes various standards for regulatory, supervision and prudential standards, and assist with institutional mechanisms for off-site monitoring and surveillance, on-site prerequisites, while providing staff capacity buildings. It is envisioned the expert will assist in putting into place all the necessary administrative mechanics, guideline, manuals and procedures to fully undertake the off-site monitoring and surveillance functions, and assist with at least two on-site examinations. Funding for the onboard

expert is very much needed. Currently, there is no regular insurance regulation to clarify and operationalize certain provisions of the Act, set certain regulatory standards in order for the Board to fully administer and implement the Act.

The FSM insurance industry comprises of regular or traditional insurance, captive insurance and various insurance intermediaries such as agents, broker, and captive managers.

A. Regular Insurance:

Out of the six foreign insurers, four are registered in accordance with Section 307 of the Act, while two have not due to some pending application issues which are anticipated to be resolved soon. Another foreign insurer filed its application for registration; however, its application was not complete and a six-month timeframe was given to the applicant to complete its application. The applicant refused to complete or file one of the required Schedules for the application which lead to the suspension or cancellation of the application. The applicant was also fined by regulators in several States in the US.

The six foreign insurers and respective agents are:

1. First Net Insurance Company (FNIC)
2. NetCare Life and Health Insurance Company (NCLH)
3. Dongbu Insurance Company (DIC)
4. Individual Assurance Company (IAC)
5. Pacific Indemnity Insurance Company (PIIC)
6. Century Insurance Company (CIC).

Agent:

Moylans Insurance Underwriters, Inc.
Moylans Insurance Underwriters, Inc.
Moylans Insurance Underwriters, Inc.
Mr. David Panuelo
Actouka Executive Insurance
Underwriters
Mr. Ray Musada as agent for service of
process.

On intermediary insurance side, there are three (3) regular insurance agents and two brokers operating in the FSM. Two out of the three agents are licensed: Moylans Insurance Underwriters, Inc. and Actouka Executive Insurance Underwriters. Mr. David Panuelo as the general agent for IAC has not been licensed; however, its application is currently under review simultaneously with IAC's application for licensure. IAC first filed its application for registration; however because of Subsection 5 of Section 301, IAC needs to be licensed, instead. IAC's application is also currently under review.

Oceania Insurance Company and Micronesia Insurance Broker Insurance are the two licensed broker and, by statutory definition, a broker is a person who acts on behalf of a prospective customer and with the prospective customer's authority arranges insurance business with insurers, including making proposals and paying premiums. As such, both licensed brokers cannot represent any insurer.

The FSM insurance industry generated total gross premiums for both life and non-life policies collected by intermediaries (i.e. agents and brokers) amounting to US\$5.3 million for the year ended 2013, compared to \$4.6 million in the preceding fiscal year. The insurance system for both life and non-life transacted through agents alone, generated gross premiums of US\$4.6 million for the year ended December 31, 2013. The insurance system yielded a net income of US\$0.45 million for the year ended December 31, 2013, for both life and non-life transacted through agents. Licensed brokers in the FSM collected premium on life policies amounting to US\$0.03 million. The brokers' non-life policies sold in the FSM yielded premium amounting to US\$0.65 million. Overall, the brokers' insurance industry yielded premium of US\$0.68 million with total commission income of US\$0.06 million for fiscal year 2013. For additional information, please refer to Appendix A.

B. Captive Insurance:

Currently, there are twelve (12) captive insurance licensees. Of the twelve (12) licensees, five (5) are designated as Class I, three (3) as Class II, and four (4) as Class III or MCC. As to captive management firms, there are currently nine (9) licensees. Four of the nine captive managers are not currently managing any licensed captives. Moreover, two of the nine are domestically incorporated and owned by Japanese, while seven are foreign incorporated with legal nexus established in the FSM.

The FSM captive insurance system continued to improve with a positive growth in fiscal year 2012 despite more challenging investment conditions due to natural disasters experienced in some jurisdictions where captives transact reinsurance businesses. The FSM captive insurance system managed a balance sheet of JPY 10.3 billion (US\$ 116.5 million) as of fiscal year-end 2012 compared to JPY 7.2 billion (US\$ 89.6 million) as of fiscal year-end 2011. The captive industry realized a significant growth of 43.9% or JPY 3.1 billion (US \$26.9 million) during the year. The growth is reflective of new entries of captive companies and growth in resources during the year. As of fiscal year end 2012, total liabilities increased by JPY 1.4 billion (US\$ 12 million) mounting to JPY 4.7 billion (US\$ 53.2 million). The change represents 41.4% increase from prior year's total liabilities of JPY 3.3 billion (US\$ 41.2 million).

The overall earnings performance of the captive system strengthened over the year generating Net Profit of JPY 1.9 billion (US \$20.9 million), compared to JPY 1.3 billion (US \$16.3 million) in 2011, as the number of reporting licensed captives increased. The captive insurance system was well capitalized at fiscal year-end 2012 with total capital and surplus reported at JPY 5.7 billion (US \$63.3 million).

Existing captive licensees as of fiscal year 2012 all have their respective capital and surplus adequately maintained well above the minimum requirement per FSM Captive Insurance Laws and Regulations. Solvency tests have been performed on each respective captive licensee and all have met the solvency requirements under the FSM Captive Regulations, except a MCC captive. The MCC captive failed to meet the minimum solvency margin requirements for fiscal year 2012. However, the captive provided a plan for rectification of deficiency in solvency requirements, which was approved and such deficiency is no longer a concern.

Due to the complexity of captive applications, the Board continues to engage the services of various independent professional reviewers. The reviewers assisted in the extensive assessment of captive insurance applications for new license and major change of business plan. Subsection 3 of Section 1003 authorizes the Commissioner to retain legal, financial and examination services, the reasonable cost of which may be charged against the applicant.

Overall, the Insurance Board was satisfied with the financial condition and performance of the captive insurance companies licensed under the Insurance Act of 2006.

There are challenges before the Board, including insurance regulatory and supervisory functions being new and specialize. Also due to the increased number of requests filed by captive licensees as in the requests for change of business plan and the increasing time needed for monitoring requirements, the Board needs additional staff or provisioning of fund to retain experts. Priority is given to captive insurance side of the operation, thus taking much of the time away from regular insurance responsibilities. Additionally, there is a need to ensure the regular insurance legal framework is cohesive and that the accompanying set of regulations is in place as soon as possible as there is currently no set of regular insurance regulations for provide legal clarifications and standards, be regulatory or prudential. Our attempt to secure technical assistance from donors has not been successful due to insurance being a specialized area, and no insurance specialist available. The Board needs to conduct on-site examination of

the first captive licensee, and funding is needed to hire an expert to provide much needed technical expertise and guidance in the process.

The Board was allocated a budget of US\$218,698 in FY13. Out of the appropriated \$218,698, the percentage for Personnel is 42.2%, Travel at 27.2%, Contractual Services at 18.5%, Consumables at 11.2%, and Fixed Assets at 0.8%. Due to inflation, it is hope the Board's subsequent budgets also reflect such inflation increase.

Mandates, Vision, Mission, Principles, and Approaches

The mandates of the FSM Insurance Board or Commission are per Section 204 of 37 FSMC:

- To regulate insurance business;
- To undertake the licensing and supervision of insurers, insurance agents, insurance brokers, and insurance solicitors;
- To protect the interests of policyholders; and
- To promote the soundness, stability and development of the insurance system in the FSM.

Our Vision is a stable, sound and healthy FSM insurance market system that is consistent with prudential principles for the insuring public, insurer and intermediary.

Our Mission is to equitably, effectively and efficiently administer and implement the FSM Insurance Act of 2006 or 37 FSM Code and accompanying regulations. In respect to our regulatory functions, the Board is committed to develop and set into place practical yet basic key standards to ensure stability, sound, healthy, responsible and progressive insurance industry for the insuring public and regulated. In respect to our supervisory functions, the Board is committed to incorporating a greater understanding of business needs and be more tolerant of business imperatives through insistence on professional competence and integrity.

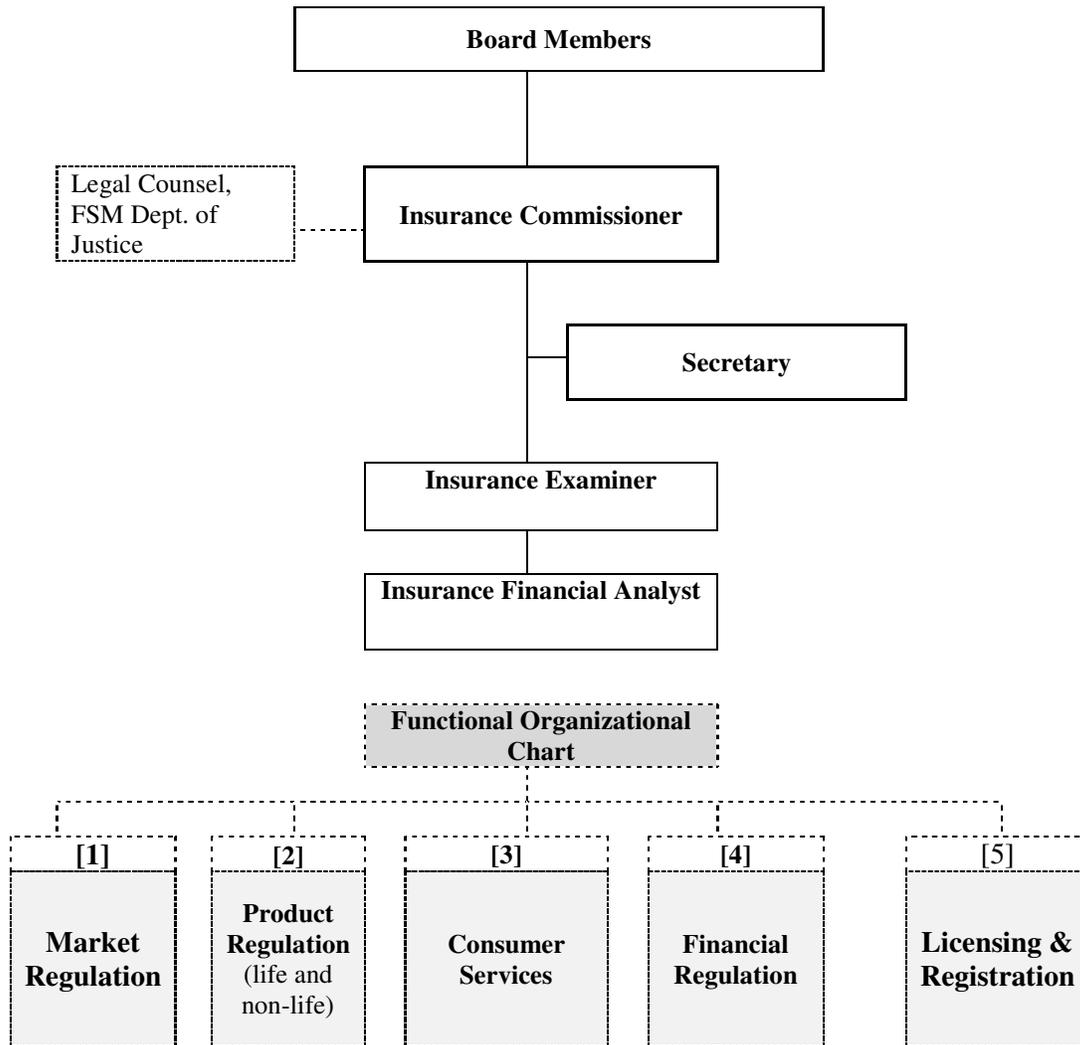
Our Regulatory Principles: Following are regulatory principles that will govern the Board's regulatory approaches:

- Focus more on systematic risk rather than protecting individual customers – our primary responsibility is to ensure confidence and avoidance of disruption in the industry. While protecting policyholder's interests is our primary objective, it is equally important to enable insurance companies to take prudent business risks.
- Regulatory and supervision functions change as the industry matures – the insurance companies should be allowed to assume the risk profiles which they are comfortable with, but within prudential limits.
- A balance mix between regulation and supervision - appropriate regulatory standards should be applied taking into account that each player in the industry is different. Certain degree of flexibilities should exist to encourage growth and innovation in good companies. Supervision will then afford the Board the opportunity to deal effectively with good and bad companies.
- The need to maintain high standards of integrity and sound financial management – Optimal standards of integrity and sound financial management not be compromised for there should be no contradiction between keeping standards high and creating a more dynamic and vibrant environment.
- All regulations should provide greater transparency – regulations should be as clear as possible and not to treat every company as a culprit until proven otherwise (it is the duty of the Board to be skeptical of human motives but also the responsibility of the Board to differentiate traffic offense from fraud and embezzlement).
- Relying more on market discipline and full information disclosure to protect policyholders – making sure there is transparency and full disclosure so the playing field is level allowing the public to decide which companies are sound and be trusted and which companies should be avoided.
- Close cooperation between the Board and regulated – the relationship between the Board and regulated should be at “arms-length” but not in an adversarial manner so to avoid conflict of interest and being seen as “too friendly” as to be taken advantage of. The regulated is in the best position to help the Board keep abreast of new developments in the industry. Candid, thoughtful feedbacks, including dissenting views are essential to help the Board fine tune policies and avoid mistakes.

Our Regulatory Approach: in our dealings and conducts is to exemplify friendliness, courteous, ethical, and professional behavior in all areas of performance by:

- Providing the best value in services to everyone, domestically and internationally;
- Applying the laws and regulations fairly, impartially and consistently;
- Ensuring our conducts and dealings are in line with the highest professional ethical standards;
- Maintaining an open and accurate communication of information to the public and everyone we exist to serve on a timely basis;
- Contributing toward a dynamic and vibrant market environment;
- Protecting the policyholders through fair, effective and efficient administration, implementation and enforcement of statutory, regulatory and prudential standards yet ensuring institutions and markets function as efficiently and effectively as possible for sustainable development; and
- Constantly evaluating our regulatory and supervisory strategies and approaches by employing the necessary adjustments in response to changes in conditions.

Organizational and Functional Charts of the Insurance Board/Commission



- 1 To ensure fair and reasonable products and trade practices, rates are not too excessive, processing complaints in respect to trade practices, verification of claim handling, and other market conduct related issues.
- 2 Ensure insurance products are consistent with statutory, regulatory and prudential requirements in respect to contents, terms, standards, forms, and other specifications. Ensure and verify rates, forms and policy substance and conditions are fair and reasonable, etc.
- 3 Process complaints and undertake public education activities so policyholders, public, insurers, and intermediaries are fully informed.
- 4 Compile financial data to ensure the reliability and financial soundness of insurance companies and intermediaries by making sure annual and quarterly financial reports are filed and analyzed on time. Compilation and analysis of key data to determine conditions in respect to capital adequacy, risk based profile, corporate and management quality, reinsurance, loss reserve adequacy, solvency margin, risk based capital, accounting methods, underwriting, etc.
- 5 To ensure applicants and licensees comply with statutory, regulatory and prudential requirements prior to licensure and transaction of insurance business. To monitor license conditions, assess and impose fines, etc.

Overview of the Insurance Industry

The FSM Insurance Act codified under Title 37 of the FSM Code came into effect in June 2006. The Act has been amended, first in November 2006 by Public Law 14-88 to add Chapter 10 for regulations, supervision and development of Captive Insurance. Subsequent amendments were also necessary to extend the period under the Act for insurers to comply with licensing and registration requirements, to change certain provisions in respect to the functions of the Insurance Board, to reduce penalties, to require auditors and actuaries to make certain disclosures, to change and add provisions regarding winding up, limitation on loans, premium remittance, fraud and claim settlement, and manner and period for which records should be kept, separation of the Insurance Board from the Banking Board, among a few others. The latest amendment, Public Law 18-20, adds a definition for Class IV captive insurance company and its requirements, including but not limited to minimum capital, type of risks and amount of risks to be assumed.

The FSM Insurance Board as the administering and implementing agency of the Act is mandated to:

- Regulate insurance business;
- Undertake the licensing and supervision of insurers, insurance agents, insurance solicitors and insurance brokers;
- Protect the interests of policyholders; and
- Promote the soundness, stability, and development of the insurance system in the FSM.

The Board is responsible for its policy and affairs and shall have the powers conferred upon it by the Act. The Commissioner is appointed to be responsible to the Board for the execution of its policy and the performance of duties and exercise of powers conferred by the Act. Additionally, the Act empowers the Board to promulgate regulations prescribing anything which under the Act may be prescribed and generally for carrying into effect the objectives of the Act.

Section 215 of the Act requires the Board to publish a list of all applications filed for license and registration, all approved licenses, all approved registrations, all disapproved licenses and registrations, all cancellations and suspensions, information relevant to the winding up of any insurance business, and other information that is in the public interest which is not in violation of laws or regulations on confidentiality or privacy. The Board intends to publish such public announcement twice a year, first after the Annual Report is filed with the President and Speaker and another around end of each year.

Chapter 3 of the Act stipulates the general requirements for licensure and registration of insurers and intermediaries, while Chapter 10 stipulates the general requirements for regulations and supervisions of captive insurance and captive managers. Captive insurance companies should be licensed in accordance with Chapter 3 of the Act.

Chapter 4 of the Act stipulates the general statutory requirements in respect to insurance policies and rights of policyholders, while Chapter 6 of the Act stipulates violations and penalties.

The FSM Insurance industry consists of regular insurance, captive insurance and the various insurance intermediaries.

A. Regular Insurance Companies:

i. Insurers:

Insurers are categorized into two types, domestic insurer and foreign insurer. A foreign insurer is an entity constituted and licensed to conduct insurance business by a jurisdiction other than the FSM that has been

registered or licensed under the FSM Insurance Act to carry on insurance business in the FSM. A domestic insurer, on the other hand, is a company that is licensed under the FSM Insurance Act to carry on an insurance business in the FSM. A company is defined by the Act as a body corporate formed under the laws of and having its head office in the FSM.

As such, a foreign insurer is qualified to become a licensed insurer if it elects to do so by way of incorporation in the FSM. A foreign insurer, however, must become a domestic insurer if the premium collection threshold of \$2 million or more each year for three consecutive years is met pursuant to Section 301 of the Act. Otherwise, the foreign insurer can be registered to engage in insurance business in the country through a local licensed agent or broker. Registration requirements are spelled out in Section 307 of the Act. Both domestic and foreign insurer can carry life and non-life policies. However, Subsection 1 of Section 312 stipulates that a licensed insurer who carried on both life insurance business and other insurance business shall conduct the life insurance business in a separate company and shall thereby segregate the assets and liabilities of its life insurance business from those of its other insurance business. Any other business, besides insurance, shall also be conducted in a separate company with segregated assets and liability as well.

As of December 31, 2013, six (6) foreign insurers are known to have been transacting insurance business of life and non-life in the Federated States of Micronesia. Among them, four (4) have been registered by the Board pursuant to Section 307 of the Act, while two (2) have not been licensed or registered. Out of the six foreign insurers, two provide life insurance coverage while the rest are purely non-life.

Due to the statutory requirement pursuant to Section 301 that no insurance shall be transacted in the country unless an insurer is registered or licensed, the Board intends to once again conduct public education sessions throughout the FSM so both insureds and prospective insureds are fully aware of the insurance statutory requirement.

Currently, there is no known domestic insurer in the country. However, IAC has filed its application to be licensed as a domestic insurer. The application is still under review.

Section 215 of the Act requires the Board publish a list of all applications filed for license and registration, all approved licenses, all approved registrations, all denials of licenses and registrations, all cancellations and suspensions, information relevant to the winding up of any insurance business, and other information that is in the public interest which is not in violation of laws or regulations on confidentiality or privacy. The table below presents a list of registered foreign insurers, foreign insurers that have not been registered or licensed, cancelled application, licensed agents, agents that have not been licensed, and licensed brokers.

ii. Intermediaries:

Agents

Section 102 [3] of Title 37 FSMC defines an agent as “a person with the authority of an insurer to solicit application, receive proposals, receive premiums, deliver policies, and to make contracts of insurance.” The Insurance Act further stipulates that only agents transacting insurance business on behalf of licensed or registered insurer shall be eligible for a license and may conduct business on behalf of more than one insurer; however, the agent must apply for a separate license as an insurance agent for each insurer. As of December 31, 2013, the Insurance Board has licensed two (2) agents who have been in existence and operating as insurance agents in the Federated States of Micronesia for many years. Moylan’s Insurance Underwriters (FSM) is the only licensed agent in the country that represents three registered foreign insurers, which are NetCare Life and Health Insurance Company, First Net Insurance Company and Dongbu Insurance Company (Guam). Actouka Executive Insurance Underwriters represents Pacific Indemnity Insurance Company.

Brokers

Section 102 [5] of Title 37 FSMC defines a broker as “a person who acts on behalf of a prospective customer and with the prospective customer’s authority arranges insurance business with insurers, including making proposals and paying premiums.” Only two known brokers exist in the Federated States of Micronesia as of December 31, 2013. The brokers, Oceania Insurance Company and Micronesia Insurance Brokers Company, Ltd., have been licensed to conduct insurance business in the Federated States of Micronesia. A broker represents and works for the insured or prospective insured, while an agent represents and works for an insurer. The regulatory and supervisory standards applied to both are slightly different, although in insurance transactions, broker and agent basically perform the same functions as insurance intermediaries.

Solicitors

A solicitor as defined in Section 102 [24] is “an individual who solicits applications for insurance or negotiates insurance business on behalf of an insurer or an agent and earns commissions for each successful sale, but is neither an insurer, or insurance agent, nor an employee of an insurer or agent. As of December 31, 2013, no known solicitor is operating in the Federated States of Micronesia.

The below table presents an overview on licensing and registration per Section 215 of the Act:

Foreign Insurers:			
Name of Insurers:	Registration /License Status in FSM	Local Agent	Place of Incorporation/Registration
First Net Insurance Company	Registered	Moylan’s Insurance Underwriters (FSM), Inc.	Guam
NetCare Life and Health Insurance Company	Registered	Moylan’s Insurance Underwriters (FSM), Inc.	Guam
Dongbu Insurance Company (Guam)	Registered	Moylan’s Insurance Underwriters (FSM), Inc.	South Korea/Guam
Pacific Indemnity Insurance Company	Registered	Actouka Executive Insurance Underwriters	Guam
Foreign Insurers Not Yet Registered or Licensed:			
Individual Assurance Company	Not yet Registered/Licensed	Mr. David Panuelo	Kansas
Century Insurance Company	Not yet Registered/Licensed	Not yet Designated	CNMI
Federal Insurance Company	Cancelled		New Jersey
US Able Life & Sterling Investors Life	Not yet file for registration	Oceania Insurance Co., Inc. (Broker)	
Brokers:			
Oceania Insurance Company	Licensed	Not applicable	FSM
Micronesia Insurance Brokers Company, Ltd.	Licensed	Not applicable	FSM

Agents:		
Name of Agents:	Status:	Foreign Carrier:
Moylan's Insurance Underwriters (FSM), Inc.	Licensed	First Net Insurance Co., NetCare Life and Health Insurance Co., and Dongbu Insurance Co.
Actouka Executive Insurance Underwriters	Licensed	Pacific Indemnity Insurance Company
Mr. David Panuelo	Not yet Licensed	Individual Assurance Company

The Board has not denied any application for license or registration. The Board has tried to work with each applicant to complete the application process pursuant to statutory requirements. However, the increasing amount of responsibilities before the Board may at some point in time force the Board to deny applications filed with material incompleteness. Federal Insurance Company filed its application for registration on June 14, 2012. Pending issues on the application were not resolved within six months leading to cancellation of the application due to incompleteness. US Able Life and Sterling Investors Life was recently discovered through the reports received from the intermediaries. The Insurance Board will work with the said insurance company to comply with the FSM Insurance law, or invoke applicable fine penalties, whichever is applicable under the Act.

iii. Financial Condition

All, but one, insurers transacting insurance business in the country have furnished data on its FSM operations for the compilation of the Annual Report. NetCare Life and Health Insurance Company did not provide requested financial and statistical information, particularly for FSM operations alone for years 2012 and 2013. This is the primary reason for the Board not completing and submitting its 2012 Annual Report. The financial report for the regular insurance industry in the FSM consists of financial and statistical data for the year ended 2013, as opposed to the captive insurance industry where financial information presented covers fiscal year ended 2012. Submissions of captives' audited financial reports are due six months after fiscal year end; therefore reporting for fiscal year 2013 is currently unavailable due to incomplete data for all licensed captives.

Based on the submitted data from the regular insurance companies, the FSM insurance industry generated total gross premiums for both life and non-life policies collected by intermediaries (i.e. agents and brokers) amounting to US\$5.3 million for the year ended 2013. A total of 2,672 life and non-life policies have been sold in the FSM from both reporting registered and non-registered foreign insurers. Of the total number of policies sold, 2,507 were sold through agents and 165 by brokers.

The financial performance of the insurance system for both life and non-life in the FSM transacted through agents alone, generated gross premiums of US\$4.6 million for the year ended December 31, 2013 which remained relatively unchanged from previous year's reported gross premium. The total amount of premiums ceded to reinsurers in 2013 was reported at US\$3.2 million, thereby retaining premiums of US\$1.4 million. Net incurred losses and related loss adjustment expenses for the period was reported at US\$0.4 million and net premiums earned for the period was at US\$1.4 million. The insurance system yielded a net income of US\$0.45 million for the year ended December 31, 2013, for both life and non-life transacted through agents.

Licensed brokers in the FSM have sold both life and non-life policies. Premium collected for life policies amounted to US\$0.03 million. The brokers' non-life policies sold in the FSM yielded premium amounting to US\$0.65 million. Overall, the brokers' insurance industry yielded premium of US\$0.68 million with total commission income of US\$0.06 million for fiscal year 2013. For additional information, please refer to Appendix A.

Major activities of the Board in FY12 and FY13

General and major activities undertaken by the Board in fiscal years 2012 and 2013:

- Public Announcement No. 12-01 on Section 301 of 37 FSMC was broadcasted to the FSM States.
- Staff participated in the APRA sponsored On-Site Training in Fiji.
- Staff participated in the APRA sponsored On-Site Training/workshop in Solomon Islands.
- Meetings with captive managers, prospect captive managers, captive applicants, prospect captive applicants, and other specialists and experts in the captive industry.
- Meeting with policyholders and prospective insured in Kosrae State and Yap State
- Processing and reviewing registration applications filed by foreign insurers.
- Reviewed and licensed an insurance broker to transact insurance business in the FSM.
- Engagement of captive application reviewer.
- Reviewed and licensed four captive insurance companies.
- Approval of a captive's loan-back request/proposal.
- Approval of five captives' change in business plan.
- Reviewing existing foreign insurer's application for domestic insurer license.
- Reviewing two filed applications for registration of foreign insurer.
- Board meetings held both in physical presence and in electronic settings.
- Self-education on insurance matters.
- Presentation at the Captive Seminar in Japan.
- Technical assistance initiated with Department of Finance and Administration, UNDP, APRA, IMF, ADB and others.
- Initiate revision to captive insurance application to include Class IV requirements.
- Updating and streamlining of application forms for both regular insurance and captive insurance companies.

Appendix A: Financial Performance of the Regular Insurance Industry

Overview of the Regular Insurance System:

As of December 31, 2013, six (6) foreign insurers are known to have been transacting insurance business of life and non-life in the Federated States of Micronesia. Among them, four (4) have been registered by the Board pursuant to Section 307 of the Act, while two (2) have not been licensed or registered. Out of the six foreign insurers, two provide life insurance coverage while the rest are purely non-life.

The intermediaries in the FSM consist of two (2) licensed agents, one (1) unlicensed agent and two (2) licensed brokers. As to reporting requirements, all registered foreign insurers, except NetCare Life and Health Insurance Company, have provided financial information and statistics pertaining to their respective operations in the FSM.

Financial Performance Overview:

The FSM insurance industry generated total gross premiums for both life and non-life policies collected by intermediaries (i.e. agents and brokers) amounting to US\$5.3 million for the year ended 2013. A total of 2,672 life and non-life policies have been reported to be sold in the FSM from both registered and non-registered foreign insurers. Of the total number of policies reported, 2,507 were sold through agents and 165 by brokers.

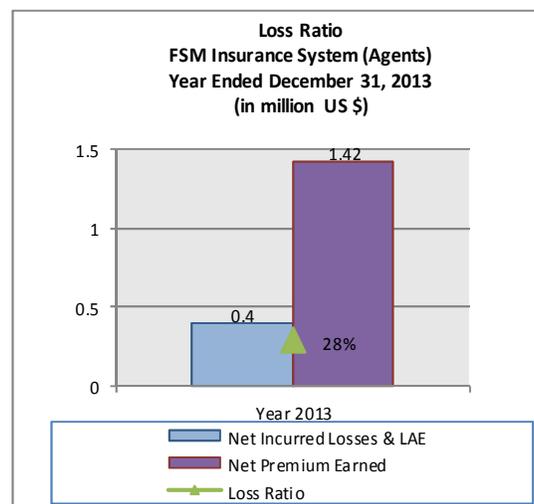
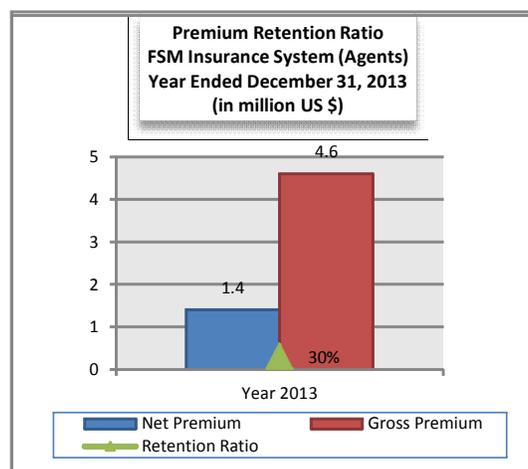
Year 2013	Agents	Brokers	Total
No. of Policies Sold	2,507	165	2,672

Agents

The financial performance of the insurance system for both life and non-life in the FSM transacted through agents, generated gross premiums of US\$4.6 million for the year ended December 31, 2013, which remained relatively unchanged from previous year's reported gross premium. The total amount of premiums ceded to reinsurers in 2013 was reported at US\$3.2 million, thereby retaining premiums of US\$1.4 million, a retention ratio at 30%. In other words, for every dollar of premium written, 30 cents was retained by the insurance system while 70 cents was ceded to the reinsurers based on their respective reinsurance arrangements.

FSM's insurance system's overall net loss ratio for the year was at 28%. Net incurred losses and related loss adjustment expenses for the period was reported at US\$0.4 million and net premiums earned for the period was at US\$1.42 million. This indicates that claims or losses constituted 28% of the total net premiums earned in the same period.

The financial performance of the insurance system in the FSM yielded a net income of US\$0.45 million for the year ended December 31, 2013, for both life and non-life transacted through agents. Its performance improved over the year with an increase of US\$0.24 million (117%) from previous year's net income of US\$0.21 million. Operating expenses were



reported at US\$0.7 million, a reduction of US\$0.02 million (3.5%) from the previous year. Apart from premium, the system also earned investment income and other income amounting to US\$0.05 million.

Brokers

Licensed brokers in the FSM sold both life and non-life policies from five (5) foreign insurers for the year ended 2013. Three (3) of these foreign insurers are registered in the FSM. Premium collected for life policies amounted to US\$0.03 million. Brokers have reportedly earned commission income of US\$0.003 million on the life policies sold. The brokers' non-life policies sold in the FSM yielded premium amounting to US\$0.65 million. Commission income earned from these policies amounted to US\$0.05 million. Overall, the brokers' insurance industry yielded premium of US\$0.68 million with total commission income of US\$0.06 million for fiscal year 2013. The tables below depict the statistical report on the licensed brokers' business in the FSM.

Life Insurance:

Coverage	No. of Policies Sold	No. of Claims Filed	No. of Claims Paid	No. of Claims Outstanding
Group Life	9	1	1	0
SUL	56	0	0	0
SOL	17	0	0	0
Term Life	10	0	0	0
Total	92	1	1	0

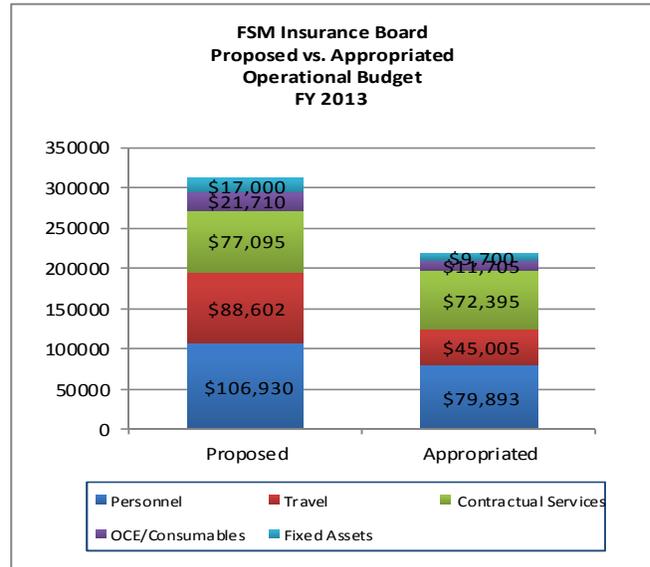
Non-Life Insurance:

Coverage	No. of Policies Sold	No. of Claims Filed	No. of Claims Paid	No. of Claims Outstanding
Automobile	8	0	0	0
Building and Content	15	0	0	0
Burglary	1	0	0	0
Fidelity	1	0	0	0
Fire	1	0	0	0
General Liability	12	0	0	0
Homeowners	6	0	0	0
Marine Cargo	2	0	0	0
Multi-Peril	10	0	0	0
Property	1	0	0	0
Surety	4	0	0	0
Worker's Comp	10	1	1	0
Directors/Offic. Liab.	1	0	0	0
Aviation Refueling	1	0	0	0
Total	73	1	1	0

Appendix B: Overview of the Board's FY13 Budget

Proposed vs. Appropriated

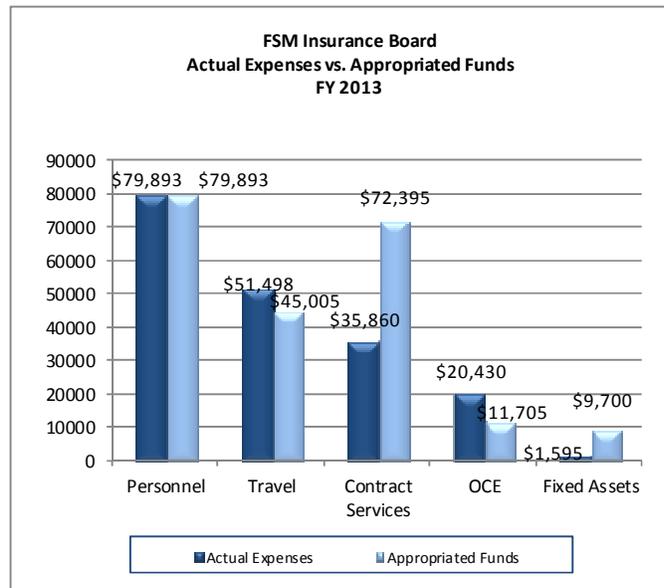
The FSM Insurance Board proposed an amount of \$311,337 as its operational budget for the fiscal year 2013. Personnel accounted for the largest composition of the budget at \$106,930 (34.3%), followed by Travel at \$88,602 (28.5%), Contractual Services at \$77,095 (24.8%), Other Current Expenditures (OCE) at \$21,710 (7%), and Fixed Assets at \$17,000 (5.5%). The appropriated or approved budget amount was \$218,698, a decrease of \$92,639 (29.8%) from the proposed amount of \$311,337. The appropriations per category all decreased from the proposed level as reflected in the chart. Personnel budget was approved at an incorrect amount of \$79,893. Commissioner's fringe benefit was applied at 9% instead of 11%; Examiner and Secretary salaries were approved at incorrect Pay Levels. The request for a new Examiner was not approved.



Actual vs. Appropriation/Allotment

Reprogramming of funds have been requested and allotted during the fiscal year among Travel, Contractual Services, Other Current Expenditures, and Fixed Assets. Total funds reprogrammed out of Contractual Services amounted to \$17,000, which was then allotted and apportioned to Travel and Other Current Expenditures at \$7,000 and \$10,000, respectively. Funds reprogrammed out of Fixed Assets amounted to \$3,000 and was allotted to Travel.

Actual expenses incurred under Travel amounted to \$51,498, which exceeded the appropriation of \$45,005 by \$6,493. A total of \$10,000 was reprogrammed into Travel thereby increasing the allotted amount to \$55,005 and yielding savings of \$3,507 at fiscal year-end. Under Contractual Services, actual expenses amounted to \$35,068, which was lower than the appropriation of \$72,395 by \$37,327. However, \$17,000 of the total appropriated amount of \$72,395 was reprogrammed and allotted to Travel at \$7,000 and Other Current Expenditures at \$10,000, thereby decreasing its allotted funds to \$55,395. The difference between actual expenses and allotted funds for Contract Services was a surplus of \$20,327. Appropriated funds for Other Current Expenditures amounted to \$11,705. However, actual OCE amounted to \$21,104. Reprogramming of \$10,000 from Contractual Services was allotted to OCE, thereby increasing its allotted funds to \$21,705 and retaining a surplus of \$601. Under Fixed Assets, appropriated amount was \$9,700; however,



actual expenses amounted to \$1,595. The amount of \$3,000 was reprogrammed into Travel, thereby decreasing allotted funds to \$6,700 and yielding savings of \$5,105.

Total actual expenses incurred by the FSM Insurance Board for the fiscal year ended 2013 amounted to \$189,158 while the total appropriated budget amounted to \$218,698, thereby realizing total savings of \$29,540.

Line-Items (Actual Expenses)

Personnel:

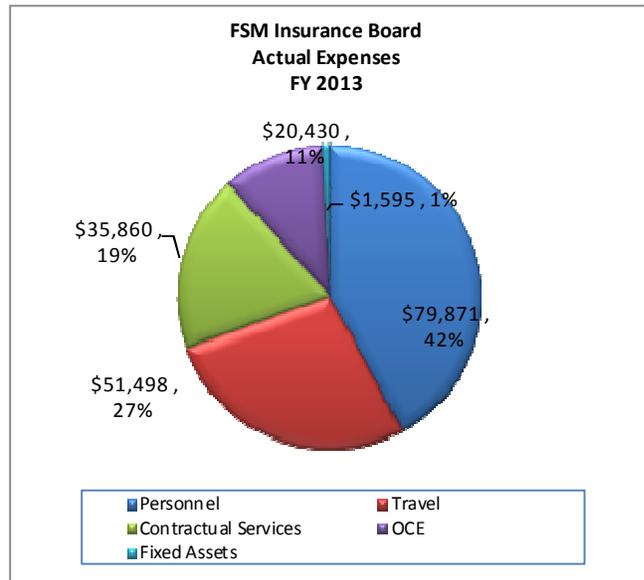
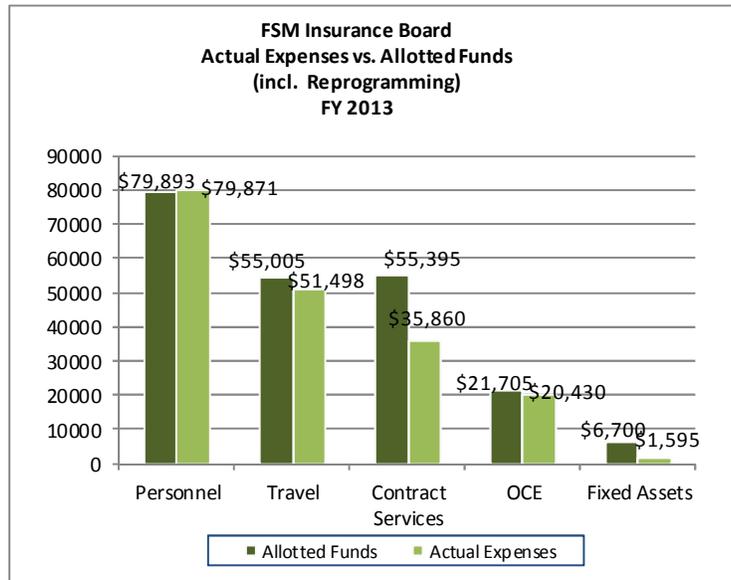
Personnel accounted for the largest component of actual expenses at \$79,893 (42.2%) for four (4) FTE positions. Change of status for Secretary from temporary to permanent was arranged on the latter part of FY12. The Board encountered an over-run in its personnel budget of \$2,200 due to the appropriated amount of \$79,893 which is less than the actual personnel cost of \$82,092, inclusive of benefits.

Travel:

Travel expenses accounted for the second largest component at \$51,498 (27.2%). For fiscal year 2013, there were a total of eleven international travels and five domestic travels (in terms of travelers) amounting to \$40,418 and \$11,079, respectively. One of the international travels involved staff members participating in APRA-sponsored on-site insurance supervision training and workshop in Solomon Islands.

Contractual Services:

Contractual Services accounted for the 3rd largest component at \$35,068 (18.5%). This category is predominantly composed of Professional Services at \$17,282 (49.3%), followed by Lease/Rent at \$9,000 (25.7%), Representation Allowance at \$4,111 (11.7%), and others at \$495 (2.4%). Professional Services was used to hire captive reviewers or insurance experts for a specified timeframe to review new applications for license and other business arrangements such as Loss-Portfolio Transfer and changes in business plans. The minimum charge or fee for a review is \$4,500 per application for licensing. As for the office lease, the monthly rental fee is \$750. Representation Allowance was used for board activities and functions covering board meetings, meetings with clients, gifts/handicrafts for new applicants, etc. For fiscal year 2013, there were a total of 8 board meetings, including other special meetings via electronic due to the time sensitivity of the matter which required the Board’s immediate attention and sanctioning.



Other Current Expenditures:

Other Current Expenditures (OCE) accounted for 11.2% of the total expenses for fiscal year 2013 at \$21,104. This category is predominantly composed of Communications at \$8,587 (40.7 %), followed by Office Supplies and Materials at \$4,721 (22.4%), Utilities at \$4,095 (19.4%), POL at \$1,586 (7.5%), Expendable Equipment/Furniture at \$975 (4.6%), advertisement/printing at \$1,020 (4.8%) and others at \$120 (0.6%). A significant part of consumables was spent on communication expenses given the large volume of transactions or business dealt overseas with foreign clients.

Fixed Assets:

Fixed Assets accounted for 0.8% of total expenditures at \$1,595. An office projector was purchased during fiscal year 2013 to be used for presentations during meetings/conferences with the Board and clients. Necessities for a new desktop computer to replace IC's old computer was purchased during the fiscal year 2012.